

Budget Change Proposal - Cover Sheet

DF-46 (REV 10/20)

Fiscal Year 2022-23	Business Unit 2240	Department Housing and Community Development	Priority No.
Budget Request Name 2240-019-BCP-2022-GB		Program 1660-Financial Assistance Program	Subprogram N/A

Budget Request Description

Consolidated Housing Accountability Application Procurement Project

Budget Request Summary

The Department of Housing and Community Development (HCD) requests \$6,713,000 in state operations from the General Fund in 2022-23 to improve its monitoring and management of loans and grants business programs through the procurement and implementation of a new enterprise Information Technology (IT) solution. The solution will be a robust and scalable enterprise data collection and management system to accurately capture, organize, track, award, manage, and report on essential housing elements, Federal and State loans, grants, and bonds, annual progress reports, and program financial information.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed N/A	
Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO Subbarao Mupparaju	Date 12/15/2021

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No.2240-053 **Project Approval Document:** [Click or tap here to enter text.](#)

Approval Date: [Click or tap to enter a date.](#)

If proposal affects another department, does other department concur with proposal? Yes No

Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Subbarao Mupparaju	Date 12/15/2021	Reviewed By KC Mohseni	Date 12/15/2021
Department Director Gustavo Velasquez	Date 12/17/2021	Agency Secretary Lourdes M Castro Ramirez	Date 1/10/2022

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE Dept. of Technology

PPBA Danielle Brandon	Date submitted to the Legislature 1/10/2022
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Analysis of Problem

A. Budget Request Summary

The Department of Housing and Community Development (HCD) is proposing to improve its monitoring and management of loans and grants business programs to ensure the funds are efficiently used for their intended purpose of creating or preserving affordable housing through an enterprise IT solution. HCD requests \$6,713,000 in state operations from the General Fund in 2022-23 for the procurement of a new Information Technology (IT) Solution and licensing and support. This IT solution will provide HCD an enterprise data collection and management system to accurately capture, organize, track, award, manage, and report on essential housing elements, Federal and State loans, grants, and bonds, annual progress reports, and program financial information.

Approval of this proposal will allow HCD to address the outstanding US Department of Housing and Urban Development (HUD) monitoring findings and concerns, reduce existing operational risks, and help mitigate HCD's high-risk grantee designation while achieving HCD's mission of promoting safe, affordable homes and vibrant, inclusive, sustainable communities for all Californians. The new enterprise IT solution will enable HCD staff to improve the accuracy of data, add functionality to reconcile with the State's Financial Information System for California (FI\$Cal), generate reports, identify recipients with high risk of noncompliance with program reporting requirements, and provide efficient monitoring and management of loans and grants programs. The current systems are insufficient to meet operational and state and federal reporting requirements.

B. Background/History

HCD oversees more than 80 programs and funding from application through closeout for construction, acquisition, rehabilitation and preservation of affordable rental and ownership housing, homeless shelters and transitional housing, public facilities, and infrastructure. The Department's overall budget has increased by 547 percent over the past four fiscal years, 57 percent of which is comprised of federal funding. However, the Department's enterprise systems have come under scrutiny, and, most recently, HUD monitoring has identified systemic failures that pose a risk to utilizing funds in accordance with program requirements, and inadequate systems to ensure that financial and program management standards are met. HCD's legacy information management systems are insufficient to meet operational needs, including financial management of a growing portfolio, robust grantee reporting modules, tools to monitor and maintain data quality and data integrity, and meet state and federal reporting requirements.

The California State Auditor (CSA) completed five required audits of HCD's housing bond program management. A total of 28 recommendations were made in the first four reports from 2014 to 2018. The September 2018 audit report stated that HCD had not followed through on approximately half of the 28 recommendations, and to date, 14 recommendations remain unresolved. The September audit report also stated that, even though HCD had implemented the Consolidated Automated Program Enterprise System (CAPES) database, CAPES does not have the necessary functionality to accurately monitor HCD's housing bond programs. The CSA recognizes that the challenges HCD faces to appropriately monitor its housing bond programs stem, in part, from inadequacies in its CAPES system. The CAPES system was implemented in 2007 and has a limited ability to generate reports. It requires users to perform unnecessarily steps to access information, and issues with database design complicate HCD's ability to develop ad hoc reports to monitor its loans and grants, respond timely and accurately to stakeholder requests, and answer complex research questions.

The 2018 CSA Audit states that despite concerns raised in prior audits, HCD has not fulfilled its obligation to monitor its recipients' use of housing bond funds. The 2014 CSA Audit found

Analysis of Problem

significant monitoring problems in several areas. The table below summarizes the results of the audit review of seven HCD-managed programs.

California State Auditor Review of HCD Managed Programs

Program	# of Projects Reviewed	# of Reports Recipients Required to Submit	# of Reports not Collected	# of Program Recipients who did not spend advanced Funds within 90 days	Adequate Process to Select Recipients for Onsite Review
BEGIN Neighborhoods	10	192	79	4	Yes
CalHome	10	209	81	3	No
Joe Serna, Jr Farmworker Housing Grant	10	136	45	N/A*	Yes
Multifamily Housing	10	133	5	N/A*	Yes
Affordable Housing Innovation Local Housing Trust Fund Matching Grant	2	12	12	N/A*	N/A**
Golden State Acquisition Fund	1	5	0	N/A*	N/A**
Catalyst Communities Grant	2	2	0	N/A*	N/A**

*These programs did not provide advances at the time of the audit.

**State law and program guidelines do not require on-site monitoring for these programs.

C. State Level Consideration

The scale of the housing affordability and the homelessness crisis in California is significant. Over the last several years, the Legislature has demonstrated an interest in increasing the state's role in addressing both housing affordability and homelessness. Both the California State Legislature and the Administration have recognized that the availability of housing is a critical issue affecting residents statewide. Currently, the State of California anticipates 50 million new residents by 2050, requiring drastic improvement to its environmental, climate, and housing initiatives. HCD projects it will need an additional 1.8 million new homes by 2025 to accommodate this anticipated increase. Furthermore, the effects of California's high housing cost and limited housing supply diminishes access to opportunity (jobs, health, stability) for working families and individuals, including persons with special needs. The regulation of the housing supply through local governments' planning and zoning powers affects the state's ability to achieve its housing goals and is critical to the state's long-term economic competitiveness.

With more than 80 programs and \$7 billion dollars that must be managed following stringent reporting requirements with State and Federal oversight, coupled with the ongoing challenges encumbering California citizens (from natural disasters to the Coronavirus (COVID-19) pandemic), it is critical that HCD implements an enterprise data collection and management

Analysis of Problem

system, and accurately report for essential housing elements, State and Federal loans, grants and bonds, annual progress reports, and program financial information, that includes an online 24/7 accessible portal for Californians. This will improve the quality of services HCD provides to its stakeholders by self-service online options, increasing efficiency and effectiveness, and reducing barriers for application submission and permit issuance, resulting in more affordable housing for Californians.

D. Justification

As part of the overall strategy to address the housing and homelessness crises, including the response to and recovery from the COVID-19 pandemic, the size and scope of HCD's programming has increased dramatically. In November 2018, California voters approved \$3 billion for a variety of housing programs that HCD oversees. Since then, HCD has added several large programs to its portfolio, including the Homekey program, the Emergency Rental Assistance program, as well as significant augmentations to the Emergency Solutions Grant program and the Community Development Block Grant (CDBG) program through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. In total, the Department has seen a 547 percent increase to the budget over the past four fiscal years. These investments come with an expectation that HCD will oversee its portfolio to ensure compliance with program requirements, measure short-term impact and analyze outcomes to develop insights into long-term efficiency and effectiveness of various programming.

The Department's lack of a single system capable of enterprise data collection and management, accurately reporting for essential housing elements, track State and Federal loans, grants and bonds, annual progress reports, program financial information, and a 24/7 online portal is hindering the production and preservation of affordable housing for Californians. In their September 2018 audit report, the CSA expressed concerns around HCD's ability to effectively monitor those housing program funds. Likewise, in response to the latest HUD monitoring, HUD withheld \$124 million of CDBG-Disaster Recovery funding allocated to the State of California to address unmet long-term recovery needs arising from damage caused by the 2017 wildfires, flooding, mudflows, and debris flows.

Due to the limitations inherent in the legacy systems, staff have developed and use manual data collection workarounds such as Microsoft (MS) Excel spreadsheets and MS Word documents, often maintained in desktop environment or shared files with limited access. In effect, the Department has several decentralized shadow databases, which lack a database audit trail, create multiple conflicting versions of program data, and lack necessary controls to prevent common data-keying errors from being introduced to the systems. When the Department receives requests to provide program specific information, staff must consolidate and compare multiple data sources, including data extracts from CAPES, individually maintained spreadsheets, and other documents. This manual process is prone to human error and results in data gaps that impacts everything from accurate reporting on program outcomes to financial record reconciliation and can result in audit and monitoring findings.

The manual processes are exacerbated by numerous independent program applications and review processes for affordable housing development loans, grants, bonds, housing elements, annual progress reports and financial information maintained in various support systems at HCD. It is imperative that the state streamline application, review, award, monitoring, and reporting processes within HCD by implementing an enterprise system to capture, manage and report on the various programs for which HCD is responsible. Affordable housing developments generally have three to eight different State funding sources supporting each project. Having a variety of applications and review processes requires more staff resources for program and fund administration, which increases developer costs that are ultimately born by the state in the form of higher subsidies.

Analysis of Problem

A single HCD system will provide increased transparency around HCD's assistance and monitoring work and will position the Legislature to assess progress more effectively towards meeting the state's housing goals. To support this effort, HCD requests 2022-23 resources to procure an enterprise data collection and management system to accurately capture, organize, track, award, manage, and report on essential housing elements, State and Federal loans, grants, and bonds, annual progress reports, program financial information, and licensing and vendor maintenance support. Approval of this request will enable HCD to manage its \$7 billion portfolio efficiently, ensure compliance with housing laws, and address all remaining audit findings by the CSA and the deficiencies noted by HUD.

This proposal will help HCD remediate outstanding audit findings or monitor HCD's housing programs efficiently. Moreover, it helps HCD avoid being subject to fines, HUD fund withholdings, and being precluded from secure funding for critical housing programs due to the lack of confidence in HCD's ability to manage and monitor those funds.

This business effort is critical towards implementing an integrated, secure, and sustainable system, which will improve the efficiency and effectiveness of HCD's operations, support an effective management of the various State and Federal grant, loan, bond, housing element, annual progress, and financial programs HCD oversees and enhance HCD's ability to respond to future program needs.

The following Software-as-a-Service (SaaS) solution and consulting resources are needed to support the completion of activities required by the state's Project Approval Lifecycle (PAL) stages 3 and 4 requirements, and the initial development effort to implement and support an enterprise State and Federal, bond, loan, and grant management system.

IT SaaS Procurement and Implementation

Solution, Consulting, and Licensing and Services - \$6,713,000 in 2022-23

HCD will procure a SaaS vendor for design and implementation activities of an IT solution. The vendor will incorporate best practices from Agile, Scrum, and Rapid Application Development (RAD) methodologies. Additionally, the vendor will create a Development Framework, based upon the processes of Product Backlog Elaboration and Build phases, be aligned to iterative approaches for defining requirements and planning Sprints. Next, HCD will procure consulting resources for the IT Project Implementation specialties throughout all phases of the project to ensure its success.

These consulting resources will provide Project Management, Independent Verification and Validation (IV&V) services and serve as Technical Leads to ensure compliance with Federal requirements for IV&V certification. CDT will provide services to support certification requirements.

E. Outcomes and Accountability

The expected outcome of this proposal is to provide uninterrupted and timely online services to California citizens (e.g., 24/7 accessible portal), address system deficiencies cited by the CSA and HUD, automate manual processes, and increase transparency around HCD's assistance and monitoring work, which will enable the Legislature to assess progress towards meeting the state's housing goals more effectively.

Projected Outcomes

Analysis of Problem

Processes Improved	2024-25	2025-26	2026-27
Quicker & more consistent application review	50%	75%	100%
Real time reporting for program funding and other key data for projects outcomes	50%	75%	100%
More efficient data extraction for standardized annual and customized reports	75%	100%	100%
Centralized data within the department	75%	100%	100%
Ability to track process flow, such as, Standard Agreement tracking, contracts, etc.	75%	100%	100%

F. Analysis of All Feasible Alternatives

Alternative 1: Approve \$6,713,000 in state operations from the General Fund in 2022-23 for the procurement of a new Information Technology (IT) Solution and licensing and support. This IT solution will provide HCD an enterprise data collection and management system to accurately capture, organize, track, award, manage, and report on essential housing elements, Federal and State loans, grants, and bonds, annual progress reports, and program financial information.

Pros:

- Implementing a configurable SaaS product reduces systems development time, cost, and schedule risks.
- The SaaS product has gone through elaborate testing for defects, usability, and is ready to use.
- The SaaS product is maintained and enhanced by the vendor at least annually.

Cons:

- The SaaS product may not have the capability of being modified to meet all HCD requirements.
- The SaaS product may have functionality that is not needed by HCD.
- Additional funds will be necessary to modify the SaaS product.

Alternative 2: Status Quo.

Pro:

- No additional cost to the General Fund.

Cons:

- HUD awards will decrease or be eliminated if unable to meet reporting needs.
- The existing IT solutions lack robust transparency and the ability to produce reports for the Legislature.
- HCD will be unable to support a growing portfolio of Federal, State, and bond loans, and grants, housing elements, and annual progress reports.
- HCD's existing IT system will continue to have defects and usability issues.
- HCD will be unable to interface between various IT solutions and FI\$Cal.
- Additional funds will be necessary to develop, modify, and enhance the existing and aging IT solutions.

Analysis of Problem

G. Implementation Plan

2022-23:

- Document approximately 30 As-Is and To-Be Business Process Workflows in collaboration with the subject matter experts
- Refine approved Stage 2 mid-level solution requirements
- Develop refined and approved Stage 2 mid-level solution requirements
- Complete PAL Stage 3 and Stage 4 documentation
- Refine detailed solution requirements
- Determine the specific types of procurements needed to support the SaaS solution's subsequent detailed design, development, and implementation (DD&I) phases
- Develop proposed Procurement Plan and Development Dates
- Develop Solicitation(s) and Statement(s) of Work
- Develop evaluation team(s) and procedures
- Release solicitation(s)
- Select vendor(s)
- Procure new system
- Manage the contract(s)

H. Supplemental Information

- None

I. Recommendation

HCD recommends Alternative 1: Approve \$6,713,000 in state operations from the General Fund in 2022-23 for the procurement of a new Information Technology (IT) Solution and licensing and support. This IT solution will provide HCD an enterprise data collection and management system to accurately capture, organize, track, award, manage, and report on essential housing elements, Federal and State loans, grants, and bonds, annual progress reports, and program financial information

Supplemental Information

BCP Fiscal Detail Sheet

BCP Title: Consolidated Housing Accountability Application Procurement Project

BR Name: 2240-019-BCP-2022-GB

Budget Request Summary

Personal Services

Personal Services	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
Positions - Permanent	0.0	0.0	0.0	0.0	0.0	0.0
Total Positions	0.0	0.0	0.0	0.0	0.0	0.0
Salaries and Wages Earnings - Permanent	0	299	0	0	0	0
Total Salaries and Wages	\$0	\$299	\$0	\$0	\$0	\$0
Total Staff Benefits	0	159	0	0	0	0
Total Personal Services	\$0	\$458	\$0	\$0	\$0	\$0

Operating Expenses and Equipment

Operating Expenses and Equipment	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
5301 - General Expense	0	13	0	0	0	0
5302 - Printing	0	3	0	0	0	0
5304 - Communications	0	10	0	0	0	0
5306 - Postage	0	3	0	0	0	0
5320 - Travel: In-State	0	10	0	0	0	0
5322 - Training	0	3	0	0	0	0
5340 - Consulting and Professional Services - External	0	1,648	0	0	0	0
5344 - Consolidated Data Centers	0	3	0	0	0	0
5346 - Information Technology	0	13	0	0	0	0
5368 - Non-Capital Asset Purchases - Equipment	0	4,549	0	0	0	0
Total Operating Expenses and Equipment	\$0	\$6,255	\$0	\$0	\$0	\$0

Total Budget Request

Total Budget Request	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
Total Budget Request	\$0	\$6,713	\$0	\$0	\$0	\$0

Fund Summary

Fund Source

Fund Source	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
State Operations - 0001 - General Fund	0	6,713	0	0	0	0
Total State Operations Expenditures	\$0	\$6,713	\$0	\$0	\$0	\$0
Total All Funds	\$0	\$6,713	\$0	\$0	\$0	\$0

Program Summary

Program Funding

Program Funding	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
1665 - Financial Assistance Program	0	6,713	0	0	0	0
Total All Programs	\$0	\$6,713	\$0	\$0	\$0	\$0

Personal Services Details

Salaries and Wages

Salaries and Wages	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
1402 - Info Tech Spec I	0	116	0	0	0	0
1414 - Info Tech Spec II	0	183	0	0	0	0
Total Salaries and Wages	\$0	\$299	\$0	\$0	\$0	\$0

Staff Benefits

Staff Benefits	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
5150900 - Staff Benefits - Other	0	159	0	0	0	0
Total Staff Benefits	\$0	\$159	\$0	\$0	\$0	\$0

Total Personal Services

Total Personal Services	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
Total Personal Services	\$0	\$458	\$0	\$0	\$0	\$0